



**HOPEDALE** *Massachusetts*

## **Debt Exclusion Vote – Special Town Election**

**June 29, 2021**



## Executive Summary

- Hopedale Finance Committee is proposing the use of a **Debt Exclusion** in the amount of **\$292,556** for certain capital projects for the upcoming fiscal year.
- Residents have an opportunity to vote in the **June 29, 2021 Special Town Election** on whether the Town may use the proposed Debt Exclusion.
- Residents' property taxes will increase initially by approximately **\$25 per quarter** (on average) and **decline over time** as the financing for the various projects are concluded.
- The Town's proposed use of the debt exclusion and the implications of either a **"yes"** or **"no" vote** on the ballot question are explained on the following pages in this short presentation.

**What is a debt exclusion?**



## Debt Exclusion

**Hopedale Finance Committee is proposing the use of a Debt Exclusion for certain capital projects for next year.**

- A Debt Exclusion (Ch. 59 Sec. 21C(j)) raises additional tax revenue to pay debt service costs to finance a capital project, or sometimes to fund a major capital purchase.
- The excluded amount, or additional tax, is not specified in the referendum language, but need not equal the anticipated annual debt service obligation in its entirety.
- A limit on the amount to be raised is initially set in the bond authorization which actually funds the capital project or purchase. It requires a two-thirds vote of town meeting.
- **The additional property taxes are not permanent but are removed from the levy when the term of the bond ends.**

<https://www.mass.gov/files/documents/2017/09/09/overridesandexclusions.pdf>



# Debt Exclusion vs. Override vs. Capital Exclusion

## What is the difference between an override and a debt exclusion?

- Both a debt exclusion and an override will increase your property taxes.
- The major difference is that with a debt exclusion, the tax increase eventually goes away, once the debt has been paid, while an override is a permanent addition to a town's tax levy limit.

## What is the difference between a debt exclusion and a capital outlay exclusion?

- A capital outlay expenditure exclusion (Ch. 59 Sec. 21C (i 1/2)) is a mechanism that allows a community to raise the total dollar cost of a capital purchase or capital project through a one-year increase in the tax levy.
- The municipality avoids long-term interest costs, if it were to borrow the needed funds.
- A capital exclusion can only be used to fund purposes, specified in Ch. 44 Secs. 7 and 8, for which a community may incur debt.

<https://www.mass.gov/files/documents/2017/09/09/overridesandexclusions.pdf>

## **What are the Details of the Vote?**



# Debt Exclusion by Project

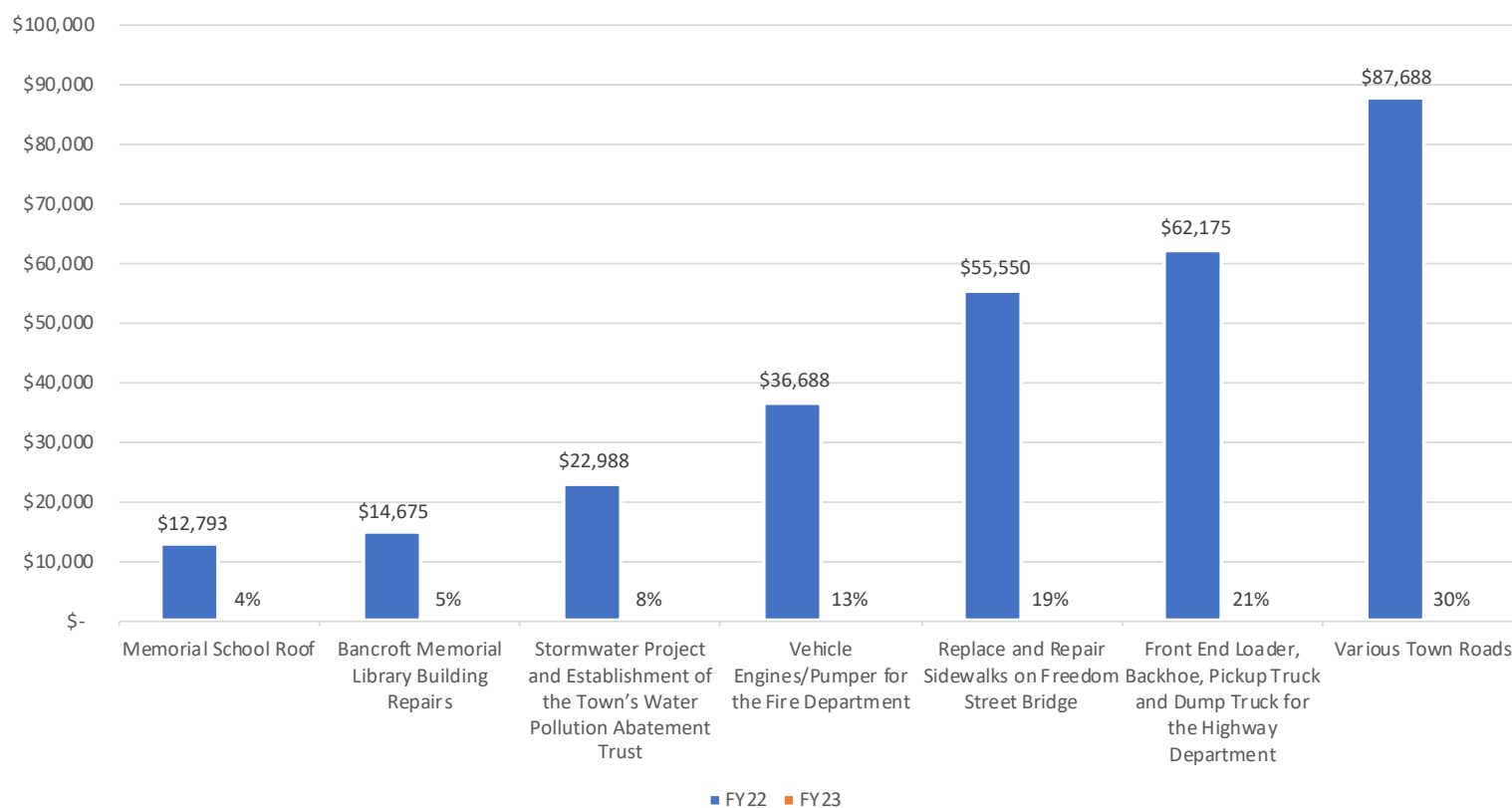
The total debt exclusion amount covered by the vote totals **\$292,556** (~1.75% increase to the total tax levy) and covers the principal and interest of outstanding debt the Town incurred (in previous fiscal years) for the following capital projects (further illustrated on the next slide):

1. Memorial School Roof (**4%**)
2. Bancroft Memorial Library Building Repairs (**5%**)
3. Replace and Repair Sidewalks on Freedom Street Bridge (**19%**)
4. Various Town Roads (**30%**)
5. Vehicle Engines/Pumper for the Fire Department (**13%**)
6. Front End Loader, Backhoe, Pickup Truck and Dump Truck for the Highway Department (**21%**)
7. Stormwater Project and Establishment of the Town's Water Pollution Abatement Trust (**8%**)



# Debt Exclusion by Project (cont.)

FY22 Composition of Debt Exclusion by Project

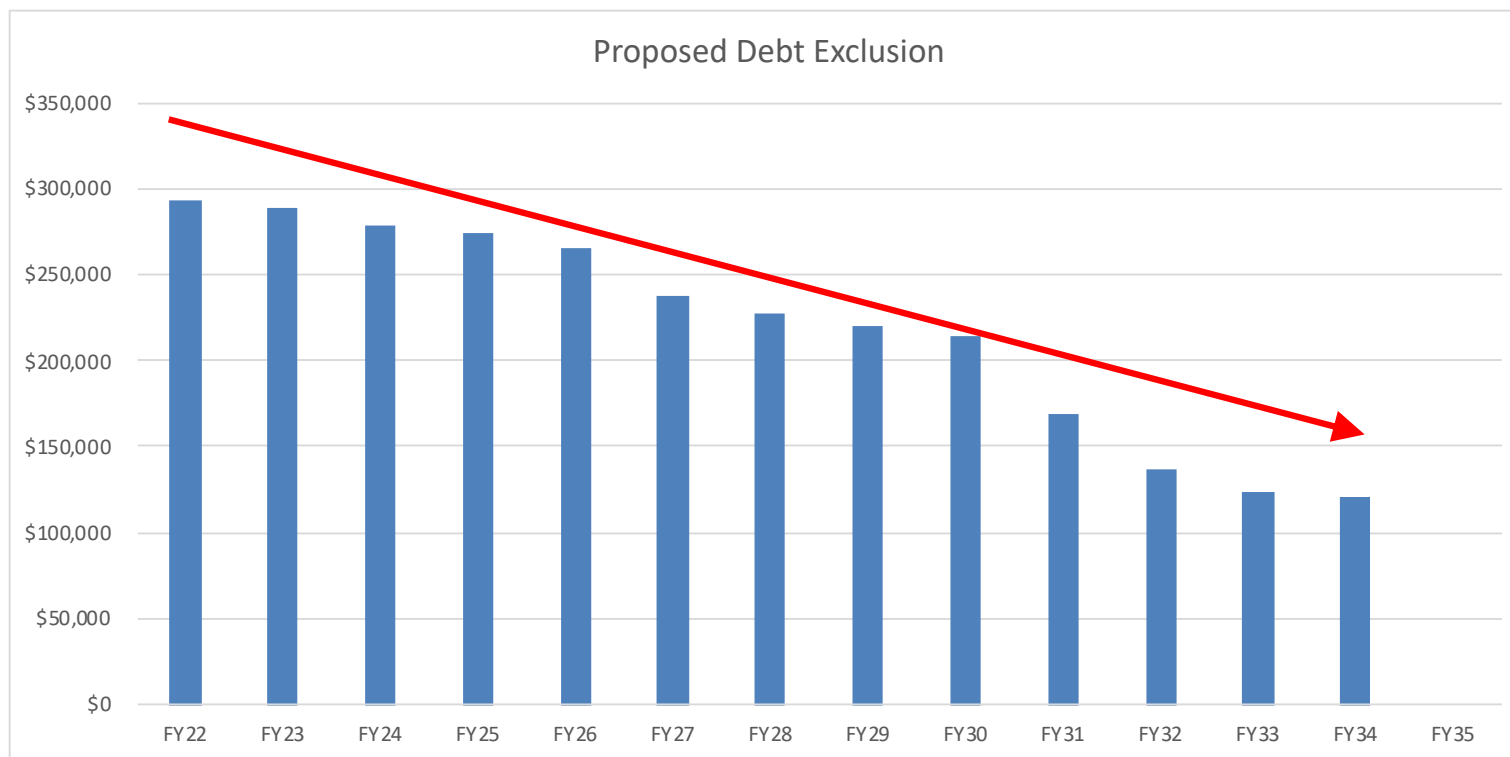






# Debt Exclusion Over Time

The debt exclusion will continue to decline in future fiscal years – with the end of the exclusion occurring in FY2035.



## **Implications of Voting “Yes”**

# Why Vote “Yes”



- **Implement capital plan and recommendations of financial consultants**

The Finance Committee is seeking to implement the 2017 recommendations of the Ciccolo Group, LLC of Boston. In their report, *Capital Investment and Long Range Plan*, the consultants recommended that "policymakers may wish to take advantage of their levy capacity and excluded debt in the future to fund needed capital improvements." Excluding debt is a widely used tool by municipalities across the Commonwealth. *Voting “yes” will implement this recommendation.*

- **Generate funding for future capital improvements/investments**

Over the years, the Town has deferred several major investments/repairs that will only become more costly in the future. Voting “yes” will generate an additional \$292,556 in free cash that – in combination with stabilization funds/free cash from the prior fiscal year – will allow the Town to make investments in capital and infrastructure improvements.



## Why Vote “Yes” (cont.)

- **Low additional cost to residential taxpayers**
  - ✓ For the average residential taxpayer, the debt exclusion will increase tax bills by approximately **\$25 per quarter**.
  - ✓ This amount will decrease each year until the excluded debt is extinguished.

**+ \$25 tax increase / quarter**

## **Implications of Voting “No”**

# Voting “No”



- **Requires the transfer of existing stabilization funds to cover operating expenses**
  - An additional vote would be required to transfer ~\$292,556 from the Town’s stabilization (“rainy day”) fund to cover FY22 operating expenses.
  - Utilizing free cash to cover operating expenses in the upcoming fiscal year is not a recommended practice by the Department of Revenue. Free cash is best used to cover capital investment.
  - There will not be a \$25/quarter (average) increase to tax bills.
- **Continue deferral of repairs and maintenance costs and investments in capital/infrastructure**
  - The Town’s capital needs will continue to grow with each succeeding fiscal year.
  - The yearly operating budget will continue to absorb the debt service – resulting in potential cuts to Town departments and services; increased costs for repairs and maintenance; and the need for future operational tax overrides.

# **Finance Committee Recommendation**



## Finance Committee Recommendation

- ✓ Given the reasons outlined on the preceding slides, the Finance Committee recommends a “yes” vote.
- ✓ Voting “yes” will continue the Town’s path towards a financially prudent future – while carefully balancing the impact of increased taxes on stakeholders.





# Thank You and Additional Resources



**Thank you for considering the information contained in this presentation.**

For additional information related to the June 29<sup>th</sup> vote, please click [here](#).



## **Appendix A – Debt Exclusion Workbook**